

Private Wealth Management

InSight

The closing of a year always spurs me to reflect, take inventory and plan for the months ahead. UMB has had an eventful 2015 with the acquisition of Marquette Financial Companies



and adjustments to our organizational structure. I am excited to see how these changes will continue to strengthen UMB in 2016 and help us persist

in delivering on our promise to serve our clients with honesty, integrity and personal attention.

This winter's issue of InSight is dedicated to three topics that are integral to developing a financial strategy for the year ahead: charitable giving, retirement saving and understanding economic shifts. Kevin Conley, vice president and trust attorney, introduces a unique retirement account option called the individual retirement trust. He explains the advantages some may see in combining the tax benefits of an individual retirement account with the control of a trust. Phillip Klevorn, Private Wealth regional manager, discusses planned giving and the various giving options available, from stocks to fine art. And finally, UMB chief investment officer, KC Mathews, delivers a review of the economy including recession and recovery factors, and discusses what's ahead for the U.S.

With another year stretched out before us, I encourage you to prepare by reviewing your financial plan with your advisor to ensure you are right where you need to be. Whether it's determining the beneficiaries

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Are We Heading Toward the Next Recession?

A Look at What History Tells Us About Today's Economy

The current recovery/expansion within the U.S. economy has been unfolding for the last six years. While no one enjoys reminiscing about the 2008-2009 recession, we all understand business cycles and know a recession will inevitably come at some point. And while I've learned it is very difficult to forecast a recession, I suggest now is the time to begin considering when the next one may occur, whether we are ready or not. I believe this is a case of when, not if.

Since 1961 economic recoveries in the U.S. have averaged 27 quarters, or almost seven years. I don't care for using averages and casting a broad net; rather, I prefer to look at current conditions and research similar historical cases. In this instance, I researched recoveries that occur in low inflation environments, which is the type of environment we are currently experiencing. In doing that research, I discovered that recoveries in low inflation environments last substantially longer, on average 33 quarters or eight years.

So, if we use the low inflation average and overlay it on the current economy, the recovery would last another two years. This expansion has also been a low growth expansion - after a severe recession in 2008, the U.S. never saw a robust recovery. Does that lead me to believe that the current expansion could last longer than even the low inflation average? Perhaps. If the current recovery lasted another five years, it would go down in history as the longest ever.

But let's dig deeper than simply using averages. We've examined and researched numerous recession risk indicators. To keep it simple, I've highlighted a few variables that have been useful in forecasting a recession:

- 1. Unemployment:** The difference between the unemployment rate and the non-accelerating inflation rate of unemployment (NAIRU) has been a decent predictor of recessions. Today the difference is virtually zero; we are at full employment. At this level, history suggests more than a 50 percent chance of a recession starting in the next three years.

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of your charitable gifts in advance or streamlining your estate plans, now is the time to get ready and focused for the New Year.

As always, we hope you find this information helpful and informative. We wish you all the best this holiday season and continued success for you and your loved ones.

Sincerely,

Dana Abraham

President

UMB Private Wealth Management



KC Mathews

Executive Vice President and Chief Investment Officer, UMB

As executive vice president and chief investment officer, KC Mathews is responsible for the development, execution and oversight of UMB's investment strategy. Mathews has more than 20 years of diverse experience in the investment industry. He earned a bachelor's degree from the University of Minnesota and a master's degree in business administration from the University of Notre Dame. He also attended the ABA National Trust School at Northwestern University and is a Chartered Financial Analyst (CFA) and member of the CFA Institute.

2. Leading Economic Indicators (LEI): The LEI Index is a composite of 10 leading indicators. Historically, you have seen a clear deterioration of the LEI Index prior to nearly every recession. Even though this index has trended down throughout 2015, it remains at a level that suggests economic growth better than 2.5 percent, or no sign of a recession in the next 12-24 months.

3. Yield Curve: Throughout my career I have repeatedly seen that the bond market gives us clues about the economy and the stock market. The slope of the curve is typically defined as the difference between the yield of the two-year treasury and the yield of the 10-year treasury. Historically, when the yield curve flattens and is close to inverting or actually inverts (short rates higher than long rates), it has been a signal that a recession is on the horizon. Currently the slope of the yield curve is at roughly +1.40 percent—indicating no risk of a recession on the 12-24 month horizon.

The good news is that none of these variables are waving a red flag, meaning they are not signaling an oncoming recession in the next 12-24 months. However, some variables are waving a cautionary yellow. These variables, along with others, warrant monitoring as we know at some point we will experience another recession.

There are two significant risks that could send the U. S. economy into a recession: a global economic slowdown or a policy error. A policy error could either be a monetary or a fiscal policy error. The Federal Reserve (Fed) has maintained a zero interest rate policy for the last seven years. Consumers and businesses have enjoyed inexpensive capital, but that may change in the near future. Today, we are very close to the Fed hiking short term interest rates, perhaps rightly so, in order to normalize borrowing costs. Nevertheless, the question remains: will higher interest rates slow our economy or send it into a recession? If the Fed moves too quickly and stifles the economy, it will go down in the history books as a policy error.

A fiscal policy error could also trigger a recession. If politicians curb government spending or introduce tax reform that causes consumers to sideline spending, this could instigate the next recession.

We operate in a global economy. What happens around the world can sometimes have a meaningful impact on our economy. Today, many significant foreign economies are struggling. Europe is emerging from a recession with very moderate growth, currently relying on aggressive monetary stimulus. Russia and Brazil remain in recessions. And China, the world's second largest economy, has been slowing down for a number of years and no one knows when its deceleration will end. I don't believe the current global situation is dire for the U.S. economy...yet. However, if things further deteriorate overseas, there will be growing pressure on our economy, pushing us closer to the next recession.

After researching recoveries in low inflation environments as well as studying our current recovery and recession indicators, I don't believe the signals point to an oncoming recession in the next 12-24 months (barring a black swan, something we cannot forecast or analyze). However, I do believe the next recession is just a matter of when, not if. ■

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Individual Retirement Trust: A Unique Savings Solution

Many individuals are familiar with individual retirement accounts (IRAs) and are aware of the advantage of saving for retirement early and often. But for those who have acquired substantial retirement assets and do not anticipate needing their entire nest egg when they retire, there is another way to preserve those funds for heirs.

Fundamentals of Retirement Savings Options

An IRA is a savings account that allows individuals to invest funds toward future retirement expenses. Once the retiree reaches 70½ years of age, s/he must begin taking required minimum distributions from the IRA, and after death, the remaining amount passes to the individual's designated beneficiaries. IRAs also provide tax advantages by allowing an individual to choose whether to establish a traditional IRA, where generally the contributions are made tax-free but the distributions are taxed, or a Roth IRA, where generally contributions are made after tax but distributions are tax-free.

A trust is another estate planning tool that allows individuals to hold assets for specific purposes or people under the direction of a fiduciary known as a trustee, who is often a third-party. For instance, a trust can be created to sustain a scholarship or to support a spouse long-term, and provides a level of control not found in an IRA.

An individual retirement trust is an IRA combined with a trust account, allowing the owner to maintain the tax advantages of an IRA while providing the IRA owner the long-term control and management options of a trust.

Advantages of the Individual Retirement Trust

Simplicity

An individual retirement trust provides a unique set of benefits that streamline account management and ensure the individual's wishes are carried out exactly as planned. The trustee manages the account and assists with tasks like investing the assets, making distributions and managing real or personal property held in the trust during the IRA owner's lifetime and beyond. Additionally,

an individual retirement trust allows you to bypass the complicated IRS requirements involved in naming a trust as an IRA beneficiary.

Tax Savings

An individual retirement trust allows the IRA owner to limit the amount of distributions from the IRA to the required minimum distributions (RMD). This allows the individual retirement trust to function as a true stretch IRA which maximizes the benefits of the tax deferred growth associated with IRAs. With this advantage, savings can grow in the account over time, maximizing the amount of wealth ultimately bequeathed to heirs.

Flexibility

An individual retirement trust is especially advantageous for those who are divorced and/or remarried, and who may have blended families that include biological and step-children. This solution can help streamline the inheritance process by allowing for the selection of a variety of beneficiaries with varying inheritance percentages while allowing the IRA owner to determine the amount of access such individuals will have to the assets of the IRA.

Control

Once the IRA owner selects beneficiaries and determines percentages of distribution, the trustee oversees all of the distributions, including any adjustments that occur over time, and makes distributions according to the terms as established by the IRA owner. The IRA owner can set conditions on distributions and is able to leave funds for individuals or organizations outside of the

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family—often exceeding the five designations available under a standard IRA. This ability to choose more heirs and to have the estate distributed according to the IRA owner’s wishes is one of the key advantages of an individual retirement trust.

The trust portion of the account also may help protect the funds from asset seizure by the potential creditors of named beneficiaries. If the IRA owner’s heirs inherit IRA assets without the protection of a trust, funds may be subject to claims of the beneficiary’s creditors. However, funds held in an individual retirement trust will generally have specific language built in to help maximize the creditor protection available to beneficiaries.

Who Benefits Most from an Individual Retirement Trust?

Individual retirement trusts offer a unique structure that may not work for everyone. Most importantly, this structure is best for those who already have significant retirement assets and are concerned about the future management of those assets. If you are particularly tax-sensitive, you may benefit from an individual retirement trust because it allows you to maximize the tax deferment available through the stretch payout option, whether the IRA is a traditional or Roth account.

Individual retirement trusts are also good vehicles for those concerned with how their heirs will use their inheritance and seek to include limitations. Any amount set aside for a beneficiary that is more than the RMD can be subject to the trustee’s discretion.

Also, if you are concerned about long-term care, an individual retirement trust can be set up with disability provisions that ensure your account is maintained in the event of your illness or incapacitation. In this case, the trustee will take over the management of your retirement fund investments, coordinate bill pay and administer distributions as set forth in the document—all without the need for a separate guardian or conservator.

An individual retirement trust can help you achieve the tax advantages of an individual retirement account paired with a comprehensive asset management plan for your heirs—now and in the future. You will be able to build and customize your legacy with multiple beneficiaries, long-term control and detailed asset distribution options. Using an individual retirement trust to combine an IRA with a trust can streamline your legacy administration and simplify the process into one efficient document. ■

Kevin Conley is vice president and trust attorney II for UMB Private Wealth Management.

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Charitable Giving Options

Through your hard work and commitment, you have reached a level of financial comfort that allows you to participate in philanthropic gifting to the organizations and causes you are passionate about. Now it's time to determine the best charitable giving plan for your financial goals.

While cash donations are often top of mind when individuals think of giving, other types of property can also be gifted and may provide better tax benefits for the donor, the recipient, or both, so consideration should be given to the types of gifts available during the gifting process. For instance, some organizations accept donations in the form of appreciated securities, real estate or art. Speak with the organization to which you will be donating to uncover any specific instructions or restrictions on gifts. This is also a good time to check the tax status of the organization to confirm its deduction eligibility.

Cash donations

If a cash donation is the best option for your financial plans, be sure to submit the gift as a check and ask for a receipt for tax purposes. Donating cash via a check is the easiest way to track the donation for your records. Cash donations are the most flexible, allowing you to split the funds among multiple organizations according to your wishes. Yet for many, holding on to liquid assets and donating stock or other types of assets provides a way to rebalance the portfolio and release low cost basis assets while retaining quick access to funds.

Appreciated security donations

Appreciated securities include stocks, bonds and mutual funds. If you have appreciated securities in your investment portfolio, transferring them to a charity instead of gifting cash can be a great option that provides equity to a worthy charity while allowing you to claim the fair market value as a deduction. While technically the assets are gains, you do not have to recognize them as such when donating them, which lets you avoid the capital gains tax that would normally be

applied. Limitations exist for this option, though. The appreciated securities must be held for one year—called qualified appreciated stock—before it can be donated with these advantages. And, the process becomes more complex if the stock is split between multiple organizations, so keep that in mind before moving forward.

Real estate donations

Donating privately-held real estate is a less common method of giving, although it can provide benefits to both the donor and recipient in some instances. First, it's important that the charity can easily liquidate the property being gifted, with no to few costs or liability associated with the sale. Residential property donation is the simplest option, with commercial property donations potentially involving legal complexities.

A good real estate donation situation would consist of a long-held primary or secondary residence which has greatly appreciated over the years and is completely paid off. Donating the house to charity rather than selling it can help the owner avoid capital gains tax on the value of the home's appreciation, and provides a vehicle for cash for the charitable organization. And, just as with appreciated security donations, the homeowner can claim the full value as a charitable deduction.

Fine art donations

Donating illiquid items like fine art can come with the same types of tax advantages as appreciated securities and real estate donations: avoidance of capital gains tax and a full market value tax deduction. Additionally, donating fine art can be a charitable way for individuals to simplify their assets or

reduce maintenance and insurance costs associated with the pieces.

The process for donating art differs according to the type of charity being given the art. Specifically, donating to a public institution provides more charitable deduction benefits than donating to a private institution. With a public institution, you can deduct the entire fair market value of the piece, while you can only deduct your direct costs with a private institution. Additionally, the public institution must meet the related use rule—meaning its mission and operation must be related to art—for you to receive the full appreciated value deduction. If the public institution's mission is not related to art, and the donated piece will not be used as part of a related exhibit at the organization, you will only be able to claim the cost of the piece as your charitable deduction.

Consult your wealth advisor

A wealth advisor can help you navigate through the complexities of charitable giving deductions, capital gains tax exemptions and other facets of your giving plan. In addition to the above, there are several other donation tools that can help you achieve your gifting goals with long-term impact, like trusts, private foundations and donor-advised funds. Whether you wish to assist an organization with monetary contributions, unique donations or other investment vehicles, it's wise to consult with a wealth advisor to ensure the commitment fits into your financial plans. ■

Phillip Klevorn is senior vice president and regional manager for UMB Private Wealth Management

Economic Indicators

2015 Outlook by the Numbers

	2010	2011	2012	2013	2014	Current Nov	2015 (estimated)	Trend (year end)
Real GDP Growth Rate	2.50%	1.60%	2.20%	1.50%	2.40%	2.10% ¹	2.40%	→
Housing Starts	526K	681K	780K	900K	1,006K	1,060K ²	1,100K	↗
Unemployment Rate	9.40%	8.50%	7.80%	7.10%	5.60%	5.00%	5.10%	↘
Projected Fed Funds Rate (Fed Target)	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	→
Projected 10-Year Treasury Rate	3.29%	2.00%	1.76%	3.00%	2.17%	2.21% ³	2.50%	↗
S&P 500 Price	1257	1257	1426	1848	2059	2081 ³	2125	↗
S&P 500 Operating EPS Growth	47.00%	15.10%	0.50%	7.00%	7.60%	0.00%	4.00%	↗
Inflation – Core CPI (Year-over-Year)	0.80%	2.20%	1.80%	1.75%	1.60%	1.90% ⁴	1.90%	↗
Core PCE Deflator (Year-over-Year)	0.90%	1.90%	1.50%	1.25%	1.30%	1.30% ⁵	1.30%	↗

¹Quarter-over-Quarter Seasonally Adjusted Annualized Rate as of 3Q 2015

²Monthly Seasonally Adjusted Annualized Rate as of October 2015

³As of November 30, 2015

⁴Year-over-Year, as of October 2015

⁵Year-over-Year, as of October 2015

Thomson Reuters Datastream; UMB Investment Management

2015 Global Economic Growth Forecasts

Areas	% of World Nominal GDP*	Average GDP 1990-2007	2012	2013	2014	2015 (estimated)
Developed World	60%	2.40%	0.80%	1.10%	1.70%	2.10%
U.S.	22%	2.90%	2.30%	2.20%	2.40%	2.40%
Eurozone	19%	1.90%	-0.75%	0.00%	0.80%	1.50%
Japan	8%	1.60%	1.00%	1.50%	0.20%	1.00%
Emerging Economies	40%	6.50%	5.50%	5.00%	3.50%	3.75%
China	10%	10.20%	7.00%	7.00%	7.40%	7.00%
Total World		3.60%	2.40%	3.00%	2.40%	3.00%

*December 31, 2012

Thomson Reuters Datastream; UMB Investment Management

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